

**CITY OF HIGHLAND PARK,
MICHIGAN**

FINANCIAL STATEMENTS

**For the Year Ended
June 30, 2004**

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Highland Park		County Wayne	
Audit Date 6/30/04		Opinion Date 12/3/04		Date Accountant Report Submitted to State: 1/31/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

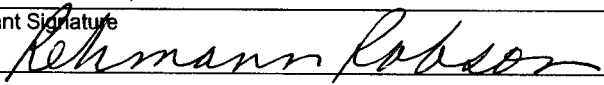
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☒ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☒ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☒ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☒ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☒ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.		X	
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).		X	

Certified Public Accountant (Firm Name) REHMANN ROBSON GERALD J. DESLOOVER, CPA			
Street Address 5800 GRATIOT, PO BOX 2025		City SAGINAW	State MI
Accountant Signature 		Zip 48605	

CITY OF HIGHLAND PARK, MICHIGAN

TABLE OF CONTENTS

	<u>PAGE</u>
LETTER OF TRANSMITTAL	i-vi
INDEPENDENT AUDITORS' REPORT	1-2
FINANCIAL STATEMENTS	
Combined Balance Sheet - All Fund Types and Account Groups	3
Combined Statement of Revenue, Expenditures and Changes in Fund Balances - All Governmental Fund Types	4
Combined Statement of Revenue, Expenditures and Changes in Fund Balances - Budget and Actual - General and Special Revenue Funds	5
Statement of Revenue, Expenses and Changes in Accumulated Deficit - Enterprise Fund	6
Statement of Cash Flows - Enterprise Fund	7
Combined Statement of Changes in Plan Net Assets Available for Retirement Benefits	8
Notes to Financial Statements	9-27
COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS AND SCHEDULES	
GENERAL FUND	
Schedule of Expenditures and Transfers Out - Budget and Actual	28
SPECIAL REVENUE FUNDS	
Combining Balance Sheet	29
Combining Statement of Revenue, Expenditures and Changes in Fund Balances	30
FIDUCIARY FUNDS	
Combining Balance Sheet	31
Combining Statement of Net Assets Available for Retirement Benefits	32
Combining Statement of Changes in Plan Net Assets	33

* * * * *

LETTER OF TRANSMITTAL

CITY OF HIGHLAND PARK
County of Wayne, State of Michigan
12050 Woodward Ave
Highland Park, MI 48203-3577
Emergency Financial Manager
(313) 252-0050 ext 240

LETTER OF TRANSMITTAL

To the Honorable Mayor, Members of the
City Council and Citizens
City of Highland Park, Michigan

This letter serves as an introduction to the Audited Financial Statements for the 2004 fiscal year. This is the second year a full audit has occurred since fiscal 2000, signifying the continued progress being made with respect to documentation of financial activity, maintenance of financial records and development of processes for financial transactions to flow through. The audit has been performed in record time (2 months compared to 4 months for the prior year and almost two years to prepare the compilations for 2001 and 2002).

In June 2001, the State of Michigan appointed an Emergency Financial Manager to take over operations of the City and create and implement a plan to correct severe financial structure and operating problems, caused, in part, by financial irregularities and other management-oriented problems that existed in the City.

The appointment of the Emergency Financial Manager and her efforts have disclosed not only the problems which precipitated the financial emergency but also uncovered a wide range of irregularities, violations and practices whose on-going impacts continue to hamper efforts to resolve the fiscal emergency. The annual results summarized below are for fiscal year 2004 operations.

General Fund

The General Fund is the primary operating fund of the City. The primary operating revenues are property taxes, income taxes, fines and fees and state shared revenue. Operating revenues are used to fund the basic operations of the City such as police and fire protection services, refuse pickup, code enforcement and general government functions such as elections, tax collections and community development. The City of Highland Park has also been required to spend considerable sums of monies to resolve more than 50 litigations over the past three years and to address a number of fines, penalties and interest costs that have been imposed upon the City due to *pre-financial emergency* actions and irregularities in City's financial and operational administration.

During the year ended June 30, 2004, the City continued to experience significant cash flow shortages that were, again, managed without shutdown of operations such as that which occurred during the 2002 fiscal year. Staffing continues to be at a very spartan level due to a cash flow deficit. Total staff including

the district court is approximately 75 full- and part-time employees plus several specialists working to resolve complex problems and restore normal, though reduced, operations. The library remains closed and the recreation center continues to be operated without cost to the City through a contract with the Detroit Rescue Mission.

During the year ended June 30, 2004, the City requested but was not able to obtain an Emergency Loan of \$1,000,000 from the State of Michigan to assist with on-going reductions in revenues from revenue sharing and income taxes and increased costs of seemingly endless litigation and other legal proceedings filed against the City. The inability to obtain the loan further tightened the cash flow problems and precluded settlement of some outstanding claims and bills that continue to be reflected in the City's accrued liabilities.

On the positive side, all regular and pension payrolls were paid and all current payrolls were paid in full and on time. Some deferred benefit payments were paid after an audit to determine actual amounts owed. Claimed accrued benefits continue to be found to exceed actual amounts owed. Significant deviations from labor contractual provisions were often put in place by previous administrations with questionable or no authority. This matter continues to be addressed, and there is on-going litigation related to some pensions and other benefits claimed.

Previously unpaid income tax refunds for 2001, 2002 and 2003 were paid, with the exception of the multi-million dollar refund claimed by one major, former Highland Park manufacturing company. This item continues to be a major component of the General Fund accrued deficit and has not been able to be resolved.

The audited financial statements of the General Fund at June 30, 2004 show a fund deficit of \$13,771,978. **This represents a deficit *REDUCTION* of \$2,231,526, accomplished despite continuing weakness in the economy locally and in Michigan.** The team of specialists to address the complex fiscal and operational challenges, combined with tight fiscal controls by the Emergency Financial Manager is moving the deficit in the right direction – downward.

Issuance of pension bonds, as a result of a consent judgment between the City and the Municipal Employees' Retirement System (MERS, which administers the Public Safety pension plan on behalf of the City), prevented a default in pensions and provided stability of that system until a long-term solution can be put in place for all of the city pension plans – each of which is seriously under-funded.

Significant cuts in operations put in place over the past three years have resulted in permanent decreases in costs; however, there are still one time costs included in the current year operations related to prior year staff reductions and other cuts.

Water and Sewer

General Fund cash flow continues to be crippled by the Water and Sewer Fund's inability to repay the outstanding loan balance of approximately \$4.5 million at June 30, 2004. This loan balance is a result of the City of Detroit garnishing the General Fund's state shared revenue in a prior year (before the financial emergency was declared) to pay delinquent sewer bills. The Water and Sewer Fund had a significant rate increase during the prior fiscal year, but billing and collections continue to be a problem, exacerbated by conversion to a new financial software system for the City at the end of 2002. The system continues to have zero cash reserves and is strained by infrastructure problems resulting from failure to perform necessary maintenance over the years prior to the financial emergency.

Not only has the Water and Sewer Fund not repaid the funds due to the General Fund, the liabilities to the General Fund and to Detroit for sewer billings continue to increase due to poor revenue collections in the

system and on-going, large increases in Detroit charges to the City. Detroit, under Judge Feikins' order, receives 65 cents out of every dollar collected by the City for Water and Sewer services. Additionally, any bills not covered by that 65 cents adds to the Water and Sewer Fund deficit, which increased this year by over \$200,000.

To illustrate why this problem continues to increase in severity, consider just one portion of the Detroit Sewer bill to the City. The IWC charge, which relates to pollution and environmental control costs, has been increased from \$4,126 per month to \$9,126 during fiscal 2004. This is a 200+% increase, during a time when the City has not been able to raise rates for two years or obtain significantly improved collections. Detroit has already notified communities under its Sewer Authority that increases for 2005 will be significant, generally more than 10%. This not only continues to increase the deficit in the Water and Sewer Fund, but it virtually precludes any real possibility of repayment to the General Fund.

Sewer charges by Detroit are **nearly 81%** of the charges billed by the City to its customers. Furthermore, those charges cover no portion of collection or administration costs of the City. The City continues to experience severe delinquency problems, is not able to obtain any relief on the Detroit Sewer charges, and bears 100% of the administration and collection costs. This reality will continue to strain City government and generate dissatisfaction from customers who do not understand that 4/5 of their "water bills" are for Detroit's sewer charges – over which the City has no control.

Street Funds

Prior to the financial emergency, the General Fund had previously borrowed money from most of the other funds of the City, some of which were not legally allowable. After considerable research and efforts, the City has been able to demonstrate to the Michigan Department of Transportation that a portion of previously disallowed expenditures were, in fact, eligible for the tornado clean up effort, reducing the amount owed from the General Fund to Act 51 by approximately \$600,000. However, MDOT is intransigent in its imposition of a penalty of \$1,084,000. While the EFM and staff continue to work to have that penalty waived by amending Act 72 to allow for a waiver of the penalty to a city under emergency financial management by the State (much as is being done for state revenue sharing), the fact that the penalty has never before been imposed on a community in the history of Act 51 is noteworthy.

Pension Plans

Major litigation by members of the Charter Police and Fire Pension system to force the City to pay increased benefit payments was appealed by them following the decision of the Circuit Court in favor of the City. The appeal was denied, and a further appeal then filed on behalf of one member. In the interim, the City paid the benefits ordered and successfully defended an effort by the appellants to have increased benefits paid during the appeals. This successful defense by the City reduced costs to the General Fund by approximately \$260,000 for the fiscal year ending June 30, 2004.

As a result of an action filed by MERS (after consultation with the City) to address the under-funding in the MERS Public Safety Pension Plan and possible payment default in February 2004, pension bonds were sold to fund contributions that had not been made by the City prior to the financial emergency. In addition, all of the required fiscal 2004 city contributions were made. (The City had already made up the unpaid employee contributions that had been withheld from employees pay but not remitted to MERS by the previous administration prior to the financial emergency being declared.)

The Charter Employee Retirement System (ERS), while not insolvent, continues to have several illegal investments that the Board of Trustees has claimed were legal. Due to the nature of these investments, the system has not been able to liquidate them. These non-performing investments and loans have contributed to the under-funding in the plan and the continued inability of the City to fund current

contributions. The Interim Finance Director as a Trustee filed suit to have a judgment for issue of bonds to repay the improper loan made to the City by this plan prior to the financial emergency. The loan was repaid to the system during February 2004.

While the MERS/City action averted pension defaults and ejection of the City from the system by MERS, the system continues to be under-funded. The City still does not have sufficient cash flow to make the required contributions to any of the three defined benefit plans. The Emergency Financial Manager and Interim City Administrator/Finance Director, each of whom serves on the boards of the two locally administered plans, continue to recommend that the State act to allow an increase in debt limit, issuance of pension bonds and closure of the local administration of these plans to assure that funding actually occurs, and that no further illegal loans, investments or benefits are allowed. This strategy would provide several years whereby the City could focus on economic development and process improvement without the burden of the cash flow deficit created by the unfunded pension obligations.

The City has recorded a provision for the required annual pension contributions as General Fund expenditure. The amount due for the current year contribution totals approximately \$2,750,000. The Police and Fire Defined Benefit pension plan net assets available at June 30, 2004 are not sufficient to cover the estimated pension benefit and healthcare costs for the year ending June 30, 2004 and are being paid by the City under a court order (referenced above) on a pay-as-you-go basis. This order of the court equates to nearly 10 mills annually, down from 13 mills after reductions pursuant to the Circuit Court decision. This order, while providing for retiree benefits, severely hinders other recovery efforts and was contested by the City as the most expensive, least viable resolution of the pension under-funding issue. The City and the Emergency Financial Manager were unable to elicit any cooperation from retiree members to put a more effective plan into place as was done with MERS and ERS.

Post-Retirement Benefits

We continue to work assiduously to bring payment for post-retirement benefits into compliance with valid contractual requirements. This has been a very difficult task due to records missing, special provisions for some retirees for which no Council approval or contractual requirement could be found, placement of retirees under incorrect benefit coverages, erroneous charges for required co-payments, etc, all of which has been costly to the City for years but which were apparently never addressed.

Additionally, increases in healthcare rates have raised the net cost for post-retirement benefits by \$282,599 over the previous year, an increase of 55%, as the City has made every effort possible to reinstate insurance coverage called for by valid contractual requirements. This increase alone represents an amount equivalent to 2 mills on the property tax rolls. It reflects the problem that Highland Park, like most other older communities, faces with healthcare costs rising far faster than revenue growth.

Trust Funds – Police and Fire and Employees Retirement System Funds

The General Fund does not have the ability to pay the amounts due and will be unable to contribute further to the funds for the year ending June 30, 2005 until additional cash infusions occur pursuant to the Recovery Plan.

The defined contribution plans maintained by the City for most general employees continue to be problematic. While current contributions and accounting are timely, one of the plans is not under the control of the Emergency Financial Manager because the plan vendor will only acknowledge the sole trusteeship of a former city employee from the prior administration. As a result, attempts to obtain historical information from the plan vendor continue to be unsuccessful and litigation is being initiated to resolve this problem.

Insurance and Liability

A dispute has arisen between the State and the Michigan Municipal League Liability Pool, of which the City was a member until the fall of 2002, regarding liability for unemployment claims paid. While it has been determined that the claims represent payments made that were not challenged by the City or the Pool, there is a dispute as to whether the Pool has liability. It is probable that this matter will result in claims owed by the City since there had been an agreement for the City to withdraw. The State does not consider that agreement, signed off on by a prior State employee, a termination of the Pool's liability. This could result in litigation that the City is attempting to avoid.

Impact on Operations

The severe cash flow shortages and significant operating deficits over the past several years has not only caused the City to be unable to pay its current obligations timely but has resulted in the elimination of all capital purchases and neglect of routine and major maintenance of all City assets. Significant maintenance and capital outlays required include the following:

- Repairs to most police and fire vehicles and purchase of new vehicles and firefighting equipment to adequately support personnel. One fire truck was damaged in an accident and replaced from insurance proceeds.
- Roof repairs to city hall, fire and library buildings, and other minor repairs to limit further damage.
- Computer system upgrades for the income tax department
- Heating and cooling system replacements at city hall due to lack of preventative maintenance (neglect) over the last ten years. The fire department has been operating without heat and city hall without air conditioning since a year ago. Subsequent to year-end, the fire department heating problem was being repaired, and the 30 Gerald Street site was slated for mothballing due to insurmountable physical plant cost issues.

The cost of the above under governmental accounting is not recorded until the expenditure has been made; therefore, no amounts are included in the General Fund at June 30, 2004.

A primary source of revenue for the General Fund is City of Highland Park income tax revenue. The income tax applies to individuals (residents and nonresidents), partnerships and corporations. As of June 30, 2004, the City has paid refund claims related to returns filed for tax years ended December 31, 2000 (filed by April 30, 2001), December 31, 2001 (filed by April 30, 2002) and December 31, 2002 (filed by April 30, 2004). The City utilized proceeds from the 2003 Fiscal Stabilization Bonds to make these refunds.

The City also had a significant number of grant funds including several COPS programs, Community Development Block Grants, and a Weed and Seed grant. The significant cuts in personnel citywide and closing of facilities made it impossible to administer and run programs internally. The grant funds are being administered for the City by Wayne County and an unrelated nonprofit organization. The City is unable to provide support for many of the grant expenditures that occurred during the prior administration and some of the prior expenditures were not in accordance with the grant awards. No provisions have been made in the financial statements for any potential disallowed costs, but efforts are being made by the City to obtain either grant amendments or waivers to avoid penalties or repayment requirements.

Most of the special revenue funds that have fund balances are unable to function because of unauthorized loans made to the General Fund. As discussed above, these loans cannot be repaid because of the General Fund's severe financial difficulties.

General Long-Term Debt

During the year ended June 30, 2001, the City issued \$3,480,000 of fiscal stabilization bonds that were to eliminate the deficit at that time. The bonds also came with the requirement that the City balance the General Fund and not operate in a deficit. The amount borrowed also approximated the maximum amount the City was allowed to borrow under State law. As noted above, the General Fund deficit was not eliminated at June 30, 2001 and it increased in fiscal 2002. Further, cash flow problems and advances of state shared revenues from prior years into current periods necessitated obtaining an Emergency Loan of \$1 million. This borrowing, too, requires a balanced budget and retention of a professional public administration manager until repaid. The City also sold another \$3,400,000 in fiscal stabilization bonds in 2004 that were used for payment of income tax refunds, MERS funding, various judgments and partial payment of debts owed to vendors.

Conclusion

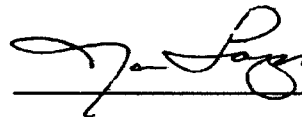
In June 2001, the State of Michigan appointed an Emergency Financial Manager to run the City and formulate a plan to eliminate the deficit and restructure operations. The magnitude of the problem was unknown due to the lack of accurate and available information including financial and personnel records. Declining revenues, including a reduction of \$1,000,000 in State Revenue Sharing between 2000 and 2004 and significant accumulation of debt make it almost impossible to eliminate the deficit.

The fact that the City has been able to reduce the General Fund deficit by \$2,300,000 over the past year is a reflection of the Herculean efforts made to control costs, resolve claims, reduce litigation and restructure services and costs to a more affordable level. Unfortunately, these accomplishments could be quickly lost if the stringent and consistent efforts to do this are not maintained AND approval is not obtained from the State to resolve the pension funding issues, as proposed. Otherwise, the City will not be able to sustain the progress that has been made through the date of this report.

The City has borrowed all the debt allowed by law. Even if the operating budget were to be balanced, no resources would be available to pay down past debts, make required pension payments, capital outlays and necessary improvements for the City to continue as a going concern. The current recovery plan focuses on increased tax base from redevelopment efforts, funding of pensions in such a way as to significantly reduce annual contribution requirements and request for waiver of onerous penalties and interest by the State, itself, against the City to enable the City to continue as a going concern.



Ramona Pearson, Emergency Financial Manager



JanLazar, Deputy Emergency Financial Manager/Interim Finance Director

INDEPENDENT AUDITORS' REPORT



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

INDEPENDENT AUDITORS' REPORT

December 3, 2004

To the Emergency Financial Manager, Honorable
Mayor and Members of the City Council
City of Highland Park, Michigan

We have audited the accompanying financial statements of the **CITY OF HIGHLAND PARK, MICHIGAN**, as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the City of Highland Park's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As further described in Note 1, these financial statements do not purport to present, and do not present, the financial position, results of operations and proprietary fund cash flows of the City of Highland Park, Michigan in accordance with accounting principles generally accepted in the United States of America. These financial statements depart from general accepted accounting principles for a variety of reasons including the failure to: (a) adopt new financial reporting requirements; (b) provide certain required disclosures and supplemental information; (c) properly classify certain transactions; and (d) be derived from complete and accurate accounting records.

In our opinion, because of the matters discussed in the preceding paragraph, the effects of which have not been determined, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Highland Park, Michigan as of June 30, 2004, or the results of its operations or the cash flows of its proprietary fund for the year then ended.

The accompanying financial statements have been prepared assuming that the City of Highland Park, Michigan will continue as a going concern. As discussed in Note 4-G to the financial statements, the City has suffered significant recurring deficits in the general fund and water and sewer enterprise fund, and may have insufficient resources to pay certain pension benefits and other potential obligations, that raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are also described in Note 4-G. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The combining and individual fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of the City of Highland Park, Michigan. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, as described in the third and fourth paragraphs of this report, does not purport to be presented and is not fairly presented in all material respects in relation to the financial statements taken as a whole.

Rehmann Lohson

FINANCIAL STATEMENTS

CITY OF HIGHLAND PARK, MICHIGAN
Combined Balance Sheet
All Fund Types and Account Groups
June 30, 2004

	<u>Governmental Fund Types</u>			<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Enterprise - Water and Sewer</u>	<u>Trust and Agency</u>
<u>ASSETS AND OTHER DEBITS</u>					
Assets					
Cash and cash equivalents	\$ 307,859	\$ 1,340,135	\$ -	\$ 236,512	\$ 1,729,571
Cash and cash equivalents - restricted	831,632	-	-	-	-
Investments	-	-	1,375,080	160,772	6,454,715
Receivables:					
Delinquent property taxes	593,409	-	-	-	-
Income taxes	252,307	-	-	-	-
Accounts, net	16,337	-	-	3,444,994	-
Other	42,493	-	-	-	-
Due from other governments	19,896	2,266,039	-	-	-
Due from other funds	127,551	165,092	-	4,148	167,810
Advances to other funds	4,525,213	1,309,539	-	-	289,377
Pension contributions receivable	-	-	-	-	3,586,895
Deposits and prepaid items	25,000	-	-	-	-
Fixed assets, net	-	-	-	7,518,243	-
Other debits					
Amount available in debt service funds	-	-	-	-	-
Amount to be provided for retirement of general long-term debt	-	-	-	-	-
<u>TOTAL ASSETS AND OTHER DEBITS</u>	<u>\$ 6,741,697</u>	<u>\$ 5,080,805</u>	<u>\$ 1,375,080</u>	<u>\$ 11,364,669</u>	<u>\$ 12,228,368</u>
<u>LIABILITIES, EQUITY AND OTHER CREDITS</u>					
Liabilities					
Accounts payable	\$ 3,771,347	\$ 81,383	\$ -	\$ 2,721,661	\$ 205,235
Accrued liabilities	829,932	-	-	18,854	251,211
Accrued compensated absences	1,450,000	-	-	350,000	-
Due to other governments	-	-	-	-	586,954
Due to TIFA	299,548	-	-	-	-
Due to other funds	238,493	577	-	-	225,531
Advances from other funds	1,598,916	-	-	4,525,213	-
Pension contributions payable	3,586,895	-	-	-	-
Deferred revenue	128,112	2,431,153	-	-	-
Deposits payable	-	-	-	-	509,740
Income tax refunds payable	8,610,432	-	-	-	-
Long-term debt	-	-	-	5,539,898	-
Total liabilities	<u>20,513,675</u>	<u>2,513,113</u>	<u>-</u>	<u>13,155,626</u>	<u>1,778,671</u>
Equity and other credits					
Investment in general fixed assets	-	-	-	-	-
Accumulated deficit	-	-	-	(1,790,957)	-
Fund balances (deficits):					
Reserved for employees' retirement	-	-	-	-	10,449,697
Reserved for advances	4,525,213	1,309,539	-	-	-
Unreserved, undesignated	(18,297,191)	1,258,153	1,375,080	-	-
Total equity and other credits	<u>(13,771,978)</u>	<u>2,567,692</u>	<u>1,375,080</u>	<u>(1,790,957)</u>	<u>10,449,697</u>
<u>TOTAL LIABILITIES, EQUITY AND OTHER CREDITS</u>	<u>\$ 6,741,697</u>	<u>\$ 5,080,805</u>	<u>\$ 1,375,080</u>	<u>\$ 11,364,669</u>	<u>\$ 12,228,368</u>

The accompanying notes are an integral part of these financial statements.

Account Groups		Total Primary Government (Memorandum Only)
General Fixed Assets	General Long-Term Debt	
\$ -	\$ -	\$ 3,614,077
-	-	831,632
-	-	7,990,567
-	-	593,409
-	-	252,307
-	-	3,461,331
-	-	42,493
-	-	2,285,935
-	-	464,601
-	-	6,124,129
-	-	3,586,895
-	-	25,000
10,048,172	-	17,566,415
-	1,375,080	1,375,080
-	23,704,972	23,704,972
<u>\$ 10,048,172</u>	<u>\$ 25,080,052</u>	<u>\$ 71,918,843</u>

\$ -	\$ -	\$ 6,779,626
-	-	1,099,997
-	1,532,487	3,332,487
-	-	586,954
-	-	299,548
-	-	464,601
-	-	6,124,129
-	-	3,586,895
-	-	2,559,265
-	-	509,740
-	-	8,610,432
-	23,547,565	29,087,463
-	25,080,052	63,041,137
10,048,172	-	10,048,172
-	-	(1,790,957)
-	-	10,449,697
-	-	5,834,752
-	-	(15,663,958)
<u>10,048,172</u>	<u>-</u>	<u>8,877,706</u>
<u>\$ 10,048,172</u>	<u>\$ 25,080,052</u>	<u>\$ 71,918,843</u>

CITY OF HIGHLAND PARK, MICHIGAN
Combined Statement of Revenue, Expenditures
and Changes in Fund Balances
All Governmental Fund Types
For the Year Ended June 30, 2004

	Governmental Fund Types			Totals Primary Government (Memorandum Only)
	General	Special Revenue	Debt Service	
Revenue				
Property taxes	\$ 3,631,420	\$ -	\$ -	\$ 3,631,420
Income taxes	2,260,122	-	-	2,260,122
Licenses and permits	32,190	-	-	32,190
Intergovernmental	4,306,073	1,581,237	-	5,887,310
Charges for services	13,990	-	-	13,990
Fines and forfeitures	810,007	-	-	810,007
Rental income	-	-	1,070,690	1,070,690
Interest	17,079	5,027	73,169	95,275
Other	441,065	17,071	-	458,136
Total revenue	11,511,946	1,603,335	1,143,859	14,259,140
Expenditures				
Current:				
General government	4,486,482	-	24,873	4,511,355
Public safety	4,982,768	514,716	-	5,497,484
Public works	657,428	577,147	-	1,234,575
Health and welfare	-	658	-	658
Other departments	396,663	-	-	396,663
Unallocated	6,450,163	-	-	6,450,163
Debt service:				
Principal	115,000	-	340,000	455,000
Interest and fiscal charges	237,356	-	789,531	1,026,887
Debt issuance costs	389,207	-	-	389,207
Total expenditures	17,715,067	1,092,521	1,154,404	19,961,992
Revenue over (under) expenditures	(6,203,121)	510,814	(10,545)	(5,702,852)
Other financing sources (uses)				
Pension bond proceeds	6,000,000	-	-	6,000,000
Premium on pension bonds	106,404	-	-	106,404
Fiscal stabilization bond proceeds	2,225,000	-	-	2,225,000
Sale of property proceeds	53,675	-	-	53,675
Transfers in	80,018	17,579	12,871	110,468
Transfers out	(30,450)	(80,018)	-	(110,468)
Total other financing sources (uses)	8,434,647	(62,439)	12,871	8,385,079
Revenue and other sources over expenditures and other (uses)	2,231,526	448,375	2,326	2,682,227
Fund balances (deficits), beginning of year	(16,003,504)	2,119,317	1,372,754	(12,511,433)
Fund balances (deficits), end of year	\$(13,771,978)	\$ 2,567,692	\$ 1,375,080	\$ (9,829,206)

The accompanying notes are an integral part of these financial statements.

CITY OF HIGHLAND PARK, MICHIGAN
Combined Statement of Revenue, Expenditures and
Changes in Fund Balances - Budget and Actual
General and Special Revenue Funds
For the Year Ended June 30, 2004

	General Fund			Special Revenue Funds		
	Budget	Actual	Variance - favorable (unfavorable)	Budget	Actual	Variance - favorable (unfavorable)
Revenue						
Property taxes	\$ 3,750,000	\$ 3,631,420	\$ (118,580)	\$ -	\$ -	\$ -
Income taxes	2,650,000	2,260,122	(389,878)	-	-	-
Licenses and permits	30,000	32,190	2,190	-	-	-
Intergovernmental	4,307,500	4,306,073	(1,427)	1,630,000	1,581,237	(48,763)
Charges for services	17,000	13,990	(3,010)	-	-	-
Fines and forfeitures	791,741	810,007	18,266	10,000	-	(10,000)
Interest	20,000	17,079	(2,921)	-	5,027	5,027
Other	288,759	441,065	152,306	1,000	17,071	16,071
Total revenue	11,855,000	11,511,946	(343,054)	1,641,000	1,603,335	(37,665)
Expenditures						
Current:						
General government	4,357,044	4,486,482	(129,438)	-	-	-
Public safety	4,981,551	4,982,768	(1,217)	510,000	514,716	(4,716)
Public works	690,346	657,428	32,918	1,125,000	577,147	547,853
Health and welfare	-	-	-	5,000	658	4,342
Other departments	432,610	396,663	35,947	-	-	-
Unallocated	9,021,000	6,450,163	2,570,837	-	-	-
Debt service -						
Principal	115,000	115,000	-	-	-	-
Interest and fiscal charges	318,000	237,356	80,644	-	-	-
Debt issuance costs	389,207	389,207	-	-	-	-
Total expenditures	20,304,758	17,715,067	2,589,691	1,640,000	1,092,521	547,479
Revenue over (under) expenditures	(8,449,758)	(6,203,121)	2,246,637	1,000	510,814	509,814
Other financing sources (uses)						
Pension bond proceeds	6,000,000	6,000,000	-	-	-	-
Premium on pension bonds	106,207	106,404	197	-	-	-
Fiscal stabilization bond proceeds	2,225,000	2,225,000	-	-	17,579	17,579
Sale of property proceeds	70,000	53,675	(16,325)	-	-	-
Operating transfers in	80,000	80,018	18	-	17,579	17,579
Operating transfers out	(31,449)	(30,450)	999	-	(80,018)	(80,018)
Total other financing sources (uses)	8,449,758	8,434,647	(15,111)	-	(44,860)	(44,860)
Revenue and other sources over expenditures and other (uses)	-	2,231,526	2,231,526	1,000	465,954	464,954
Fund balances (deficits), beginning of year	(16,003,504)	(16,003,504)	-	2,119,317	2,119,317	-
Fund balances (deficits), end of year	<u>\$ (16,003,504)</u>	<u>\$ (13,771,978)</u>	<u>\$ 2,231,526</u>	<u>\$2,120,317</u>	<u>\$2,585,271</u>	<u>\$ 464,954</u>

The accompanying notes are an integral part of these financial statements.

CITY OF HIGHLAND PARK, MICHIGAN

**Statement of Revenue, Expenses, and
Changes in Accumulated Deficit
Enterprise Fund - Water and Sewer
For the Year Ended June 30, 2004**

Operating revenue

Charges for services	\$ 4,911,073
Penalties	267,579
Other revenue	<u>18,509</u>

Total operating revenue	<u>5,197,161</u>
-------------------------	------------------

Operating expenses

Sewage and disposal	4,173,267
Water production and distribution	1,101,916
Water administration	315,541
Repairs and maintenance	(8,880)
Bad debt expense	(543,425)
Depreciation	<u>236,984</u>

Total operating expenses	<u>5,275,403</u>
--------------------------	------------------

Operating loss	<u>(78,242)</u>
----------------	-----------------

Non-operating revenue (expense)

Investment income	2,106
Interest expense	<u>(140,372)</u>

Total non-operating expense	<u>(138,266)</u>
-----------------------------	------------------

Net loss	(216,508)
----------	-----------

Accumulated deficit, beginning of year	<u>(1,574,449)</u>
--	--------------------

Accumulated deficit, end of year	<u>\$ (1,790,957)</u>
----------------------------------	-----------------------

The accompanying notes are an integral part of these financial statements.

CITY OF HIGHLAND PARK, MICHIGAN

Statement of Cash Flows

Enterprise Fund - Water and Sewer

For the Year Ended June 30, 2004.

Cash flows from operating activities

Operating income (loss)	\$ (78,242)
Adjustments to reconcile operating income (loss) to net cash provided by operations:	
Depreciation	236,984
Increase (decrease) in assets and liabilities:	
Accounts receivable	(849,469)
Due from other funds	15,109
Accounts payable	1,322,609
Accrued liabilities	(339,808)
Advances from other funds	(59,276)
Net cash provided by operating activities	<u>247,907</u>

Cash flows from capital and related financing activities

Purchase of fixed assets	(18,449)
Bond principal payments	(150,000)
Interest paid	(140,372)
Net cash used by capital and related financing activities	<u>(308,821)</u>

Cash flows from investing activities

Interest and investment income	2,106
Purchase of investments	(504)
Net cash used by investing activities	<u>1,602</u>

Net decrease in cash and cash equivalents	(59,312)
---	----------

Cash and cash equivalents, beginning of year	<u>295,824</u>
--	----------------

Cash and cash equivalents, end of year	<u>\$ 236,512</u>
--	-------------------

The accompanying notes are an integral part of these financial statements.

CITY OF HIGHLAND PARK, MICHIGAN
Combined Statement of Changes in Plan Net Assets
Available for Retirement Benefits
For the Year Ended June 30, 2004

Additions

Investment income:

Interest and dividends	\$ 129,284
Net appreciation in fair value of investments	842,693
Less investment expenses	<u>(60,696)</u>
Total investment income	<u>911,281</u>

Contributions:

Employer	2,015,790
Employees	<u>67,231</u>
Total contributions	<u>2,083,021</u>

Total additions	<u>2,994,302</u>
-----------------	------------------

Deductions:

Pension benefits	3,260,990
Health care benefits, net	839,952
Administrative expenses	<u>78,305</u>
Total deductions	<u>4,179,247</u>

Net decrease	(1,184,945)
--------------	-------------

Net assets held in trust for benefits

Beginning of year	<u>11,634,642</u>
End of year	<u>\$ 10,449,697</u>

The accompanying notes are an integral part of these financial statements.

CITY OF HIGHLAND PARK, MICHIGAN

Index

Notes To Financial Statements

June 30, 2004

	<u>PAGE</u>
1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	
A. Reporting Entity	10
B. Measurement Focus, Basis of Accounting and Basis of Presentation.....	11
C. Assets, Liabilities and Equity.....	12
2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY	
A. Budgetary Information	15
B. Excess of Expenditures Over Appropriations	15
C. Deficit Fund Equity.....	16
3. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS	
A. Deposits and Investments.....	16
B. Fixed Assets	17
C. Long-Term Debt	18
4. OTHER INFORMATION	
A. Property Taxes	20
B. Risk Management	21
C. Post-Employment Benefits	21
D. Defined Contribution Pension Plans	22
E. Defined Benefit Pension Plans.....	22
F. Contingencies.....	26
G. Going Concern / Management's Plans.....	27

CITY OF HIGHLAND PARK, MICHIGAN

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and financial reporting policies, taken as a whole, of the City of Highland Park, Michigan (the "City" or the "government") do not conform to accounting principles generally accepted in the United States of America as applicable to governmental units because:

1. The City has not adopted the financial reporting requirements of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, which was first effective for the City for the year ended June 30, 2003. Instead, management has elected to present the financial statements in accordance with the financial reporting model in effect prior to GASB Statement No. 34. This decision was based on monetary priorities established by the State-appointed Emergency Financial Manager (EFM), who was placed in charge of the City due to its severe financial problems. In other words, a greater priority was given to City's most immediate critical services and financial matters, rather than spending additional money to implement a new reporting model. Further information regarding the City's financial condition is provided in other notes.
2. During fiscal 2003-04 it was discovered that certain retirees receiving pension benefits from the Police and Fire Retirement System were also receiving benefits from the City's MERS (Michigan Employees Retirement System) plan. The benefits being drawn from both plans were based on the same service credit years, which is illegal. As a result, suspecting the potential of fraudulent acts, the EFM suspended benefit payments to the persons in question, reported the alleged fraud to the Michigan Department of Treasury, and engaged legal counsel. While the ultimate outcome of this matter will not be known for some time, there is a likelihood that any actuarial data including the ineligible persons may be unreliable and materially misstated.
3. Primarily because of inaccurate or missing records, an actuarial valuation of the Employees' Retirement System defined benefit pension plan has not been performed since 1999 and a valuation was only recently completed for the Police and Fire Retirement System (in 2003; the first time in three years). As a result of this and the matter discussed in #2 above, the City is unable to determine the net pension obligations for those plans or to provide the required financial statements disclosures, including the presentation of three-year trend information.
4. The general fund has recorded liabilities and related expenditures for estimated pension plan contributions, certain income tax refunds and certain self-insurance claims that should be reported in the general long-term debt account group since there are no expendable available financial resources with which to liquidate these obligations. Management has elected to present these items as general fund liabilities to underscore the severity of the City's financial condition.

CITY OF HIGHLAND PARK, MICHIGAN

Notes to Financial Statements

5. The financial statements do not include the Tax Increment Finance Authority, a component unit of the City.
6. The general fixed assets account group does not include all assets acquired prior to June 30, 1999, nor does the City have adequate or complete accounting records, or a physical inventory, to support the general fixed assets reported.
7. The City does not have adequate or complete accounting records to support the fixed assets reported in the enterprise fund or physical inventory records to substantiate their existence and economic value.
8. The City does not have adequate or complete accounting records to support the estimated liability for accrued compensated absences payable, in particular, to former employees.

1-A. Reporting Entity

The City is a municipal corporation that, under normal circumstances, is governed under a mayor/council form of government. However, as a result of the City's significant financial problems, it is currently governed by the Emergency Financial Manager who was appointed by the State of Michigan in June 2001.

These financial statements present the government and its blended component unit, but exclude its discretely presented component unit, which is required to be included by generally accepted accounting principles. Component units are entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in separate columns in the combined financial statements, if presented, to emphasize they are legally separate from the City. The City's component units have June 30 year-ends.

Blended Component Unit. The Building Authority is governed, under normal circumstances, by a board appointed by the City Council; however, it too is currently governed by the State-appointed emergency financial manager. The Building Authority's sole function is to oversee the financing and acquisition/construction of the City's public buildings; therefore, it is reported as if it were part of the primary government.

Discretely Presented Component Unit. The Tax Increment Financing Authority (TIFA) is responsible for certain revitalization projects and activities in the City. The members of the TIFA's governing board are appointed by the government. The TIFA has not been audited for the year ended June 30, 2004, or for the previous three fiscal years; accordingly, financial information for the TIFA has not been included in these financial statements.

CITY OF HIGHLAND PARK, MICHIGAN

Notes to Financial Statements

1-B. Measurement Focus, Basis of Accounting and Basis of Presentation

The accounts of the government are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

The government has the following fund types and account groups:

Governmental funds are used to account for the government's general activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The government considers all revenues available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Property taxes, franchise taxes, licenses, interest and special assessments are susceptible to accrual. Other receipts and taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

Entitlement and shared revenues are recorded at the time of receipt or earlier if the "susceptible to accrual" criteria are met. Expenditure-driven grants, if any, are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

Governmental funds include the following fund types:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *special revenue funds* account for revenue sources that are legally restricted to expenditure for specific purposes.

The *debt service fund* accounts for the servicing of general long-term debt not being financed by proprietary funds.

CITY OF HIGHLAND PARK, MICHIGAN

Notes to Financial Statements

Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The government applies all applicable FASB pronouncements issued prior to November 30, 1989, in accounting and reporting for its proprietary operations.

The City has one proprietary fund. The *enterprise fund* accounts for those operations that are financed and operated in a manner similar to private business or where management has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Fiduciary funds account for assets held by the government in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the government under the terms of a formal trust agreement.

The *pension trust funds* are accounted for in essentially the same manner as the proprietary funds, using the same measurement focus and basis of accounting. The pension trust funds account for the assets of the government's single-employer defined benefit pension plans.

The *agency funds* are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the government holds for others in an agency capacity.

Account Groups. The *general fixed assets account group* is used to account for fixed assets not accounted for in proprietary or trust funds. The *general long-term debt account group* is used to account for general long-term debt and certain other liabilities that are not specific liabilities of proprietary or trust funds.

1-C. Assets, Liabilities and Equity

Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the City to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

CITY OF HIGHLAND PARK, MICHIGAN

Notes to Financial Statements

Pension trust funds are authorized under the State's Pension Investment Act, as amended, to invest in common stocks, real estate, and various other investment instruments, subject to certain limitations.

Investments are stated at fair market value.

Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds or component units".

Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources. Substantial portions of the outstanding interfund borrowings occurred prior to the appointment of the EFM, were not authorized under State law, and may result in fines and/or penalties to the City.

Fixed Assets

Fixed assets used in governmental fund types of the government are recorded in the general fixed assets account group at cost. Donated fixed assets are recorded at their estimated fair value at the date of donation. Assets in the general fixed assets account group are not depreciated.

Public domain (infrastructure) general fixed assets (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the government) are not capitalized.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not included in the general fixed assets account group or capitalized in the proprietary funds.

Property, plant and equipment in the proprietary fund are recorded at cost. Property, plant and equipment donated to the proprietary fund, if any, are recorded at their estimated fair value at the date of donation. Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed.

CITY OF HIGHLAND PARK, MICHIGAN

Notes to Financial Statements

Property, plant and equipment are depreciated in the proprietary fund using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings, plants and mains	75
Building improvements	25-50
Machinery and equipment	15

Compensated Absences

It is the government's policy to permit eligible employees to accumulate earned but unused vacation and sick pay benefits. Vacation and sick pay is accrued when incurred in proprietary funds and reported as a fund liability. Vacation pay that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts not expected to be liquidated with expendable available financial resources are reported in the general long-term debt account group. No expenditure is reported for these amounts.

Long-Term Obligations

The government reports long-term debt of governmental funds at face value in the general long-term debt account group. Certain other governmental fund obligations not expected to be financed with current available financial resources are also reported in the general long-term debt account group. Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

Fund Equity

Reservations of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose. Reservations of retained earnings, if any, are limited to outside third-party restrictions. Designations of fund balance, if any, represent tentative management plans that are subject to change.

Amounts reserved for advances to other funds may be subject to write off or adjustment based on management's assessment of the likelihood of payment and the impact of the write offs.

CITY OF HIGHLAND PARK, MICHIGAN

Notes to Financial Statements

Memorandum Only--Total Columns

Total columns on the financial statements are captioned as "memorandum only" because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position, results of operations or cash flows in accordance with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

2-A. Budgetary Information

Annual budgets are adopted on the modified accrual basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at fiscal year-end. Currently, the budgets are adopted by directive of the EFM.

The appropriated budget is prepared by fund, function and department. The legal level of budgetary control is the department level. Certain supplemental budgetary appropriations were made during the year, which were not considered material. The government does not utilize encumbrance accounting.

2-B. Excess of Expenditures Over Appropriations

For the year ended June 30, 2004, expenditures exceeded appropriations as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
General government:			
District court	\$ 450,000	\$ 799,807	\$ (349,807)
Data processing	70,000	71,642	(1,642)
Public safety	4,981,551	4,982,768	(1,217)
Other departments -			
Parks grant	200,000	203,040	(3,040)
Special Revenue Funds			
Major Streets Fund -			
Operating transfers out	-	80,018	(80,018)
Local Law Enforcement Block			
Grant Fund -			
Public safety	500,000	514,142	(14,142)

CITY OF HIGHLAND PARK, MICHIGAN

Notes to Financial Statements

2-C. Deficit Fund Equity

At June 30, 2004, the General Fund had an unreserved deficit fund balance of \$18,297,191; the total fund balance deficit was \$13,771,978. Also at June 30, 2004, the Water and Sewer enterprise fund had a total retained earnings deficit of \$1,790,957; after considering the fund's investment in fixed assets net of related debt of \$1,978,345, its working capital deficit was \$3,769,302.

NOTE 3 - DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

3-A. Deposits and Investments

A reconciliation of cash, cash equivalents and investments as shown on the Combined Balance Sheet follows:

Cash and cash equivalents	\$ 3,614,077
Cash and cash equivalents – restricted	831,632
Investments	<u>7,990,567</u>
	<u>\$ 12,436,276</u>
Bank deposits	\$ 3,446,131
Investments in securities and mutual funds	8,985,465
Cash on hand	<u>4,680</u>
	<u>\$ 12,436,276</u>

At year-end, the City's carrying amount of deposits was \$3,446,131 and the bank balance was \$3,177,297. Of the bank balance, \$102,713 was covered by federal depository insurance. The remaining balance of \$3,074,584 was uninsured and uncollateralized.

The City believes that due to the dollar value of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

CITY OF HIGHLAND PARK, MICHIGAN

Notes to Financial Statements

Investments are categorized into these three categories of credit risk:

- (1) Insured or registered, or securities held by the government or its agent in the government's name.
- (2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the government's name.
- (3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the government's name.

At year-end, the City's investment balances were as follows:

	<u>Category</u>			<u>Uncategorized</u>	<u>Carrying Amount (Fair Value)</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Uncategorized as to risk:					
Mutual and cash management funds				\$ 8,428,792	\$ 8,428,792
Cash value of life insurance				<u>556,673</u>	<u>556,673</u>
Total investments				<u>\$ 8,985,465</u>	<u>\$ 8,985,465</u>

3-B. Fixed Assets

Following is a summary of changes in general fixed assets:

	<u>Balance at July 1, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2004</u>
Land	\$ 582,270	\$ -	\$ -	\$ 582,270
Buildings	8,705,146	131,764	-	8,836,910
Vehicles	202,350	189,404	-	391,754
Equipment	<u>237,238</u>	<u>-</u>	<u>-</u>	<u>237,238</u>
	<u>\$ 9,727,004</u>	<u>\$ 321,168</u>	<u>\$ -</u>	<u>\$10,048,172</u>

CITY OF HIGHLAND PARK, MICHIGAN

Notes to Financial Statements

A summary of enterprise fund fixed assets at June 30, 2004, is as follows:

Land, buildings, plants and mains	\$ 9,912,523
Machinery and equipment	<u>1,514,504</u>
	11,427,027
Less: Accumulated depreciation	<u>(3,908,784)</u>
Total	<u>\$ 7,518,243</u>

3-C. Long-Term Debt

The following is a summary of the government's debt outstanding as of June 30, 2004:

				<u>Principal Outstanding</u>	
				Enterprise	General
	<u>Number</u>	<u>Interest</u>	<u>Maturing</u>	<u>Fund</u>	<u>Long-term</u>
	<u>of Issues</u>	<u>Rate</u>	<u>Through</u>		<u>Debt</u>
Building Authority bonds	1	7.75%	2018	\$ -	\$ 9,930,000
Pension bonds	1	2.15-6.875%	2034	-	6,000,000
Fiscal stabilization bonds	2	2.0-6.0%	2023	-	5,380,000
State emergency loan	1	variable	2022	-	1,000,000
Revenue bonds	1	2.5%	2029	5,539,898	-
Lease obligations	1	-	2009	-	277,332
Compensated absences	-	-	-	-	1,532,487
Lawsuits and claims	-	-	-	-	960,233
				<u>\$ 5,539,898</u>	<u>\$ 25,080,052</u>

CITY OF HIGHLAND PARK, MICHIGAN

Notes to Financial Statements

Annual debt service requirements to maturity for general long-term debt, including interest of \$17,169,513 are as follows:

Year Ended June 30,	Building Authority Bonds	Pension/Fiscal Stabilization Bonds	State Emergency Loan	Lease Obligations	Total
2005	\$ 1,127,600	883,274	\$ -	\$ 67,530	\$ 2,078,404
2006	1,128,731	893,341	-	67,530	2,089,602
2007	1,127,538	895,424	-	67,530	2,090,492
2008	1,130,019	900,939	-	67,530	2,098,488
2009	1,127,594	895,608	-	67,530	2,090,732
2010-14	5,644,938	4,500,873	200,000	-	10,345,811
2015-19	5,647,194	4,510,395	500,000	-	10,657,589
2020-24	-	3,612,478	300,000	-	3,912,478
2025-29	-	2,191,750	-	-	2,191,750
2030-34	-	2,201,500	-	-	2,201,500
	16,933,614	21,485,581	1,000,000	337,650	39,756,845
Interest	(7,003,614)	(10,105,581)	-	(60,318)	(17,169,513)
	<u><u>\$ 9,930,000</u></u>	<u><u>\$ 11,380,000</u></u>	<u><u>\$ 1,000,000</u></u>	<u><u>\$ 277,332</u></u>	<u><u>\$ 22,587,332</u></u>

Annual debt service requirements to maturity for enterprise fund revenue bonds, including interest of \$1,987,808 are as follows:

2005	\$ 291,560
2006	287,685
2007	288,747
2008	289,685
2009	290,497
2010-14	1,460,300
2015-19	1,448,174
2020-24	1,449,675
2025-29	1,453,174
2030	268,209
	<u>7,527,706</u>
Interest	<u>(1,987,808)</u>
	<u><u>\$ 5,539,898</u></u>

CITY OF HIGHLAND PARK, MICHIGAN

Notes to Financial Statements

Following is a summary of changes in general long-term debt for the year ended June 30, 2004:

	<u>Balance - July 1, 2003</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance - June 30, 2004</u>
General long-term debt				
Building Authority bonds	\$ 10,270,000	\$ -	\$ (340,000)	\$ 9,930,000
Pension bonds	-	6,000,000	-	6,000,000
Fiscal stabilization bonds	3,270,000	2,225,000	(115,000)	5,380,000
State emergency loan	1,000,000	-	-	1,000,000
Lease obligations	341,056	-	(63,724)	277,332
Compensated absences	1,532,487	-	-	1,532,487
Lawsuits and claims	850,000	235,233	(125,000)	960,233
	<u>\$ 17,263,543</u>	<u>\$ 8,460,233</u>	<u>\$ (643,724)</u>	<u>\$ 25,080,052</u>
Enterprise fund				
Revenue bonds	<u>\$ 5,689,898</u>	<u>\$ -</u>	<u>\$ (150,000)</u>	<u>\$ 5,539,898</u>

Further information regarding the lawsuits and claims are presented in Note 4-H. Payments on lawsuits and claims are reported as legal costs under general government expenditures in the general fund.

NOTE 4 - OTHER INFORMATION

4-A. Property Taxes

The government's property taxes are levied each July 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through August 31; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Wayne County. Assessed values, as established annually by the government and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value. Real and personal property in the City for the 2003 levy were assessed and equalized at \$127,014,702 (not including properties subject to Industrial Facilities Tax exemption). The government's general operating tax rate for fiscal 2003-04 was 19.9880 mills with an additional 3.9600 and 2.9982 mills levied for judgments and refuse collection, respectively.

CITY OF HIGHLAND PARK, MICHIGAN

Notes to Financial Statements

Property taxes for the TIFA are derived from a tax increment financing agreement between the TIFA and other taxing districts. Under this arrangement, the TIFA receives those property taxes levied on the increment of current taxable valuations (determined as of the preceding December 31, the lien date) over base year assessed valuations on certain property located in the City, which are within the TIFA district. Property taxes are recognized in the fiscal year in which they are levied.

4-B. Risk Management

The City is exposed to various risks of loss related property damage, torts, errors and omissions, and employee injuries, as well as for medical benefits provided to employees. Following is a summary of the City's risk management programs:

General liability. Prior to fiscal 2002-03, the City was self-insured for claims relating to general and auto liability, auto physical damage, and property loss claims. Beginning in fiscal 2002-03, the City purchased certain coverage through commercial carriers. No reserves have been established by the City to fund any self-insured claims. The majority of any such claims are funded through judgment levies placed on the tax roll.

Worker's compensation. The City is self-insured for workers' compensation claims. The liability for these claims is paid currently by the City; no reserves have been established.

Medical claims. The City had several commercial health insurance carriers through January 2001. Several of those carriers cancelled their health care coverage policies at that time, leaving certain employees without health care insurance. All employees were transferred to a new insurance carrier by May 2001. An unknown liability exists for claims incurred by uninsured employees from January 2001 to May 2001.

Life and dental insurance. The City's life and dental insurance coverage for eligible employees was cancelled in January 2001; the City is now self-insured for these benefits. An unknown liability exists for claims incurred by uninsured employees from January 2001 through June 2002. No reserves have been established by the City to fund these potential liabilities and no liabilities have been recorded as of June 30, 2004.

4-C. Post-employment Benefits

The City provides post-employment life and health insurance coverage pursuant to union contracts, paying various percentages for these benefits depending on the particular contract. The City is self-insured for post-employment life insurance coverage. Certain retirees have co-pay obligations for these benefits, as provided by contract. During the year ended June 30, 2004, the net cost for post-employment benefits was \$787,352 (an increase of \$282,599 over the prior year).

CITY OF HIGHLAND PARK, MICHIGAN

Notes to Financial Statements

4-D. Defined Contribution Pension Plans

The City has a defined contribution pension plan for all non-public safety employees. Under such plans, benefits depend solely on amounts contributed to the plan along with investment earnings thereon. As established by the City, the employer contributes an amount equal to nine percent of employees' earnings and employees contribute six percent. For the year ended June 30, 2004, the City's contribution was \$67,978.

The district court is contributing to an unrelated defined contribution pension plan that was originally established, but then discontinued by the City. Under this plan, 6.5 percent was contributed on behalf of the employer; employee contributions are voluntary. For the year ended June 30, 2004, the employer's contribution was \$19,080.

In addition to the above, the City has funds on deposit with an earlier defined contribution plan vendor, but has not been able to reconcile the account or have it moved to another vendor/trustee. Currently, the sole trustee of this plan is a named individual who was the City's former finance director. Because of resistance from that individual, the plan assets cannot be determined and employee accounts verified. The City may need to take legal action to rectify the situation.

4-E. Defined Benefit Pension Plans

The City has three defined benefit pension plans, which are summarized as follows:

General Employees' Pension Plan. The City of Highland Park Employees' Retirement System (ERS) is a single-employer defined benefit pension plan covering non-public safety employees of the City. As of November 1986, the City closed the ERS to all employees hired after that date. Vested members of the ERS as of that date were given the option of freezing their accrued defined benefit, payable at their normal retirement date, or joining the defined contribution plan. Members electing to join the defined contribution plan were refunded their ERS contributions and allowed to roll them into that plan.

The ERS financial statements are prepared using the accrual basis of accounting. Member contributions, if any, are recognized in the period in which they are due. The City's contributions are recognized when due and the employer has made a formal commitment to provide them. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

CITY OF HIGHLAND PARK, MICHIGAN

Notes to Financial Statements

The City of Highland Park is the administrator of the plan. Administrative costs of the plan are financed through investment earnings or paid by the City. The plan is included as a pension trust fund in the City's financial statements; a stand-alone financial report of the plan has not been issued. Plan amendments are under the authority of the City of Highland Park ordinances.

The prior Pension Board made certain plan investments that violated Public Act 314, as well as an unauthorized loan from plan assets to the City under the prior administration. Following year-end, the EFM developed a plan for repayment of these items. The authority for an emergency financial manager over a separate pension board under State statutes was, until a very recent legislative amendment, unclear and prevented the EFM from taking more immediate action to divest of the illegal investments and unauthorized loan.

An actuarial valuation of the plan has not been performed since June 30, 1999. The City recorded an estimated contribution liability for fiscal 2003-04 of \$100,000 in the general fund, along with a matching receivable in the ERS pension trust fund. This brought the respective receivable/payable balances to \$377,306 as of June 30, 2004 after actual cash contributions during the year of \$844,419. These cash payments were made possible by the issuance of fiscal stabilization bonds during the year (see Note 3-C). The City has not determined or estimated its net pension obligation as required under generally accepted accounting principles.

Police and Fire Retirement System. The City of Highland Park Policemen and Firemen Retirement System (PFRS) is a single-employer defined benefit pension plan covering public safety officers employed of the City. This plan was closed as of November 1985 to new hires; active members at that time were terminated and enrolled under the MERS plan, which is described below.

The PFRS financial statements are prepared using the accrual basis of accounting. Member contributions, if any, are recognized in the period in which they are due. The City's contributions are recognized when due and the employer has made a formal commitment to provide them. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The City of Highland Park is the administrator of the plan. Administrative costs of the plan are financed through investment earnings or paid by the City. The plan is included as a pension trust fund in the City's financial statements; a stand-alone financial report of the plan has not been issued. Plan amendments are under the authority of the City of Highland Park ordinances.

CITY OF HIGHLAND PARK, MICHIGAN

Notes to Financial Statements

The City recorded an estimated contribution liability for fiscal 2003-04 of \$1,915,790 in the general fund, along with a matching receivable in the PFRS pension trust fund. This brought the respective receivable/payable balances to \$3,209,589 as of June 30, 2004 after actual cash contributions during the year of \$2,292,535. These cash payments were made possible by the issuance of fiscal stabilization bonds during the year (see Note 3-C). The City has not determined or estimated its net pension obligation as required under generally accepted accounting principles.

Certain plan retirees, purporting to be acting for the Pension Board, filed suit against the EFM to increase benefits pursuant to an agreement from 1996, which was found by the City to be improper. As a result of the lengthy court proceedings, legal fees needlessly consumed plan assets, bonus payments originally ordered by the court were reversed and benefit payments returned to the authorized base levels. An actuarial valuation that will measure the impact of these changes and reversals has not yet been completed and is delayed pending appeals, which to date have been rejected.

As earlier indicated in Note 1, allegations of fraud related to the PFRS surfaced during fiscal 2003-04 and are pending adjudication in 2005, and perhaps beyond. In the meantime, benefit payments to certain retirees have been suspended pending the outcome of the legal proceedings. Accordingly, the meaningfulness of the actuarial data provided below is potentially unreliable subject to the ultimate resolution of this matter.

An actuarial valuation of the plan as of December 31, 2002 (the first such valuation in three years) was completed and issued during 2003. The actuarial assumptions included a rate of return on the investment of present and future assets of 7.5%.

Schedule of Funding Progress (dollar amounts in thousands)

<u>Actuarial Valuation Date</u>	<u>(a) Accrued Assets</u>	<u>(b) Actuarial Accrued Liability (AAL) Entry Age</u>	<u>(b-a) Unfunded AAL (UAAL)</u>	<u>Funded Ratio Total</u>
12/31/02	\$ 321	\$ 11,454	\$ 11,133	2.8%
12/31/99	3,452	15,845	12,393	21.8%
12/31/95	4,970	16,432	11,462	30.2%

CITY OF HIGHLAND PARK, MICHIGAN

Notes to Financial Statements

Michigan Municipal Employees Retirement System (MERS). The City also participates in MERS, an agent multiple-employer plan administered by the MERS Retirement Board, which establishes and amends the benefit provisions of the plan participants. MERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to MERS at 447 N. Canal Road, Lansing, Michigan 48917, or by calling (800) 767-6377.

The City is required to contribute at an actuarially determined rate; covered employees, which are limited to public safety officers, are also required to contribute. The employer contribution requirements are established and may be amended by the MERS Retirement Board. The contribution requirements of plan members are established and may be amended by the City, subject to collective bargaining agreements and depending on the MERS contribution program adopted by the City.

The City recorded general fund expenditures of \$406,556 for fiscal 2003-04 for employer contributions to MERS. Actual payments to MERS for employer contributions during the year ended June 30, 2004 amounted to \$5,782,513, of which \$5.0 million was provided by the issuance of fiscal stabilization bonds pursuant to a court order.

The latest actuarial valuation dated December 31, 2003 uses the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of 8.0%; (b) projected salary increase of 4.5% per year compounded annually, attributable to inflation; and (c) additional projected salary increases of 0.0% to 4.2% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2003 was 31 years.

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>(a) Actuarial Value of Assets</u>	<u>(b) Actuarial Accrued Liability (AAL) Entry Age</u>	<u>(b-a) Unfunded AAL (UAAL)</u>	<u>Funded Ratio Total</u>	<u>(c) Covered Payroll</u>	<u>((b-a)/c) UAAL as a Percentage of Covered Payroll</u>
12/31/01	\$5,517,549	\$22,887,005	\$17,369,456	24%	\$2,752,687	631%
12/31/02	3,950,831	21,681,700	17,730,869	18%	1,337,170	1326%
12/31/03	8,541,551	23,090,746	14,549,195	37%	1,440,514	1010%

CITY OF HIGHLAND PARK, MICHIGAN

Notes to Financial Statements

4-F. Contingencies

Lawsuits. The City is a defendant in various lawsuits and asserted claims. A provision in the amount of \$960,233 has been recorded in the general long-term debt account group for the estimated obligation for certain of these lawsuits and asserted claims. Management and legal counsel believe the City's ultimate exposure with respect to these actions is not determinable. No provision has been made in the accompanying financial statements for additional potential liabilities, if any, that may arise from these suits and asserted claims, or any unasserted claims that relate to current or prior activities of the City.

Income tax refunds. The City has recorded a liability in the general fund totaling approximately \$8.6 million for income tax refund claims filed by various taxpayers. This includes over \$7.0 million of claims filed by Chrysler Corporation (or its successor) for tax years 1985 to the present. The City has had limited discussions with Chrysler regarding the potential disposition of these claims and intends to audit those claims prior to issuing any refund. Whatever the ultimate outcome, the City does not have the expendable available resources with which to pay this asserted obligation; accordingly, it should be reported in the general long-term debt account group rather than the general fund. The City has, however, paid other 2000 through 2003 refund claims with funds obtained through fiscal stabilization bonds and other general fund resources.

Public Act 51 noncompliance. In July 2000, the State of Michigan began withholding Public Act 51 shared revenues from the City due to noncompliance with the Act. This came about when the City failed to repay an authorized lending of Act 51 funds from the major and local street special revenue funds to the general fund for tornado damage repairs with the understanding that these loans would be repaid when federal disaster reimbursements were received. Despite its agreement to repay the monies, the prior administration used the federal reimbursements for other purposes and did not repay the Act 51 loan. Beginning July 2002, the State began releasing current shared revenues to the City, but not the monies withheld up to that time.

Now, not only is the City required to repay the loans before the withheld monies will be released (for which the general fund is unable to make payment given its financial condition), but it may be assessed a \$1.1 million penalty under the provisions of Act 51. The EFM has requested a legislative waiver of this penalty inasmuch as it cannot be waived administratively.

At June 30, 2004, the balance of the loans and the payments withheld totaled \$1,300,956 and \$2,033,130, respectively. Accordingly, a receivable and deferred revenue is recorded in the accompanying combined balance sheet for the amounts withheld by the State.

Police and Fire defined benefit pension plan. The Police and Fire defined benefit pension plan may not have sufficient reserves to pay future pension benefits much beyond the next fiscal year. The City also does not have sufficient resources to fund current and past due required contributions.

CITY OF HIGHLAND PARK, MICHIGAN

Notes to Financial Statements

Compensated absences. One of the actions taken several years ago to address the City's dire financial condition was to layoff or terminate most of the workforce. In the wake of this action, numerous claims for the payment of accrued compensated absences have been filed with courts and the U.S. Department of Labor, Wage and Hour division. The City, through the EFM and Interim Administrator/Finance Director, has disputed these claims as being overstated, unsupported and, in certain instances, noncompliant with applicable labor agreements.

This position has been affirmed by audits conducted by the Wayne County Auditor General and the Wage and Hour division. Accordingly, the liabilities for accrued compensated absences reported in the enterprise fund and general long-term debt account group reflects management's estimate of the ultimate cost as opposed to the amount of the claims currently being contested.

4-G. Going Concern / Management's Plans

Considering the extent of the government's fund deficits and its potential inability to satisfy future obligations when due, there is substantial doubt regarding the City's ability to continue as a going concern. The EFM continues to work with the State of Michigan, creditors, other governmental units and financial institutions to address the City's financial problems and to determine the next appropriate courses of action.

* * * * *

**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES**

GENERAL FUND

CITY OF HIGHLAND PARK, MICHIGAN
Schedule of Expenditures - Budget and Actual
General Fund
For the Year Ended June 30, 2004

	<u>Budget</u>	<u>Actual</u>	<u>Variance - favorable (unfavorable)</u>
General government			
City council	\$ 62,000	\$ 61,302	\$ 698
Administration	380,000	375,250	4,750
District court	450,000	799,807	(349,807)
Finance	525,000	516,513	8,487
Data processing	70,000	71,642	(1,642)
Income tax	80,000	78,241	1,759
City assessor	55,000	49,299	5,701
Legal	500,000	462,990	37,010
Judgments	400,000	351,586	48,414
City clerk	150,000	142,175	7,825
Human resources	85,000	83,463	1,537
Treasurer	115,000	109,874	5,126
Facilities	1,485,044	1,384,340	100,704
Total general government	<u>4,357,044</u>	<u>4,486,482</u>	<u>(129,438)</u>
Public safety	<u>4,981,551</u>	<u>4,982,768</u>	<u>(1,217)</u>
Public works	<u>690,346</u>	<u>657,428</u>	<u>32,918</u>
Other departments			
Inspection / Engineering	61,610	33,348	28,262
Code enforcement	35,000	32,894	2,106
Fleet maintenance	91,000	90,209	791
Community development	45,000	37,172	7,828
Parks grant	200,000	203,040	(3,040)
Total other departments	<u>432,610</u>	<u>396,663</u>	<u>35,947</u>
Unallocated			
Pension contributions	8,200,000	5,935,428	2,264,572
Workers compensation	250,000	245,626	4,374
Other employee benefits	550,000	253,735	296,265
Other charges	21,000	15,374	5,626
Total unallocated	<u>9,021,000</u>	<u>6,450,163</u>	<u>2,570,837</u>
Debt service			
Principal	115,000	115,000	-
Interest and fiscal charges	318,000	237,356	80,644
Debt issuance costs	389,207	389,207	-
	<u>822,207</u>	<u>741,563</u>	<u>80,644</u>
Transfers out	<u>31,449</u>	<u>30,450</u>	<u>999</u>
Total expenditures and transfers out	<u>\$ 20,336,207</u>	<u>\$ 17,745,517</u>	<u>\$ 2,590,690</u>

SPECIAL REVENUE FUNDS

CITY OF HIGHLAND PARK, MICHIGAN
Combining Balance Sheet
Special Revenue Funds
June 30, 2004

	<u>Major Streets</u>	<u>Local Streets</u>	<u>Local Law Enforcement Block Grant</u>	<u>Demolition</u>
<u>ASSETS</u>				
Assets				
Cash and cash equivalents	\$ 690,959	\$ 278,630	\$ 320,062	\$ 987
Due from other governments	1,718,977	488,748	58,314	-
Due from other funds	-	-	-	61,876
Advances to other funds	295,684	964,325	-	-
<u>TOTAL ASSETS</u>	<u>\$ 2,705,620</u>	<u>\$ 1,731,703</u>	<u>\$ 378,376</u>	<u>\$ 62,863</u>
 <u>LIABILITIES AND FUND BALANCES</u>				
Liabilities				
Accounts payable	\$ 18,585	\$ -	\$ 62,798	\$ -
Due to other funds	-	-	-	-
Deferred revenue	1,583,113	450,017	312,070	-
Total liabilities	1,601,698	450,017	374,868	-
Fund balances				
Reserved for advances	295,684	964,325	-	-
Unreserved, undesignated (deficit)	808,238	317,361	3,508	62,863
Total fund balances	1,103,922	1,281,686	3,508	62,863
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$ 2,705,620</u>	<u>\$ 1,731,703</u>	<u>\$ 378,376</u>	<u>\$ 62,863</u>

<u>Drug Forfeiture</u>	<u>Multi-Grants</u>	<u>Community Projects</u>	<u>Federal Account</u>	<u>Community Development</u>	<u>Site Reclamation</u>	<u>Total</u>
\$ 13,074	\$ -	\$ -	\$ -	\$ 36,423	\$ -	\$ 1,340,135
-	-	-	-	-	-	2,266,039
-	-	34,114	69,102	-	-	165,092
-	-	-	-	49,530	-	1,309,539
<u>\$ 13,074</u>	<u>\$ -</u>	<u>\$ 34,114</u>	<u>\$ 69,102</u>	<u>\$ 85,953</u>	<u>\$ -</u>	<u>\$ 5,080,805</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 81,383
577	-	-	-	-	-	577
-	-	-	-	85,953	-	2,431,153
<u>577</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>85,953</u>	<u>-</u>	<u>2,513,113</u>
-	-	-	-	49,530	-	1,309,539
<u>12,497</u>	<u>-</u>	<u>34,114</u>	<u>69,102</u>	<u>(49,530)</u>	<u>-</u>	<u>1,258,153</u>
<u>12,497</u>	<u>-</u>	<u>34,114</u>	<u>69,102</u>	<u>-</u>	<u>-</u>	<u>2,567,692</u>
<u>\$ 13,074</u>	<u>\$ -</u>	<u>\$ 34,114</u>	<u>\$ 69,102</u>	<u>\$ 85,953</u>	<u>\$ -</u>	<u>\$ 5,080,805</u>

CITY OF HIGHLAND PARK, MICHIGAN
Combining Statement of Revenue, Expenditures
and Changes in Fund Balances
Special Revenue Funds
For the Year Ended June 30, 2004

	<u>Major Streets</u>	<u>Local Streets</u>	<u>Local Law Enforcement Block Grant</u>	<u>Demolition</u>
Revenue				
Intergovernmental	\$ 854,424	\$ 227,898	\$ 498,257	\$ -
Interest	3,509	1,358	3	47
Other	-	-	1,811	2,299
	<u>857,933</u>	<u>229,256</u>	<u>500,071</u>	<u>2,346</u>
Total revenue				
Expenditures				
Public safety	-	-	514,142	-
Public works:				
Routine maintenance	102,437	39,197	-	-
Construction	306,920	-	-	-
Non-motorized improvements	22,148	1,008	-	-
Traffic services	57,935	-	-	-
Winter maintenance	18,772	5,880	-	-
Administration	-	22,790	-	60
Health and welfare	-	-	-	-
	<u>508,212</u>	<u>68,875</u>	<u>514,142</u>	<u>60</u>
Total expenditures				
Revenue over (under) expenditures	<u>349,721</u>	<u>160,381</u>	<u>(14,071)</u>	<u>2,286</u>
Other financing sources (uses)				
Transfers in	-	-	17,579	-
Transfers out	(80,018)	-	-	-
	<u>(80,018)</u>	<u>-</u>	<u>17,579</u>	<u>-</u>
Total other sources (uses)				
Revenue and other sources over (under) expenditures and other (uses)	269,703	160,381	3,508	2,286
Fund balances, beginning of year	<u>834,219</u>	<u>1,121,305</u>	<u>-</u>	<u>60,577</u>
Fund balances, end of year	<u>\$ 1,103,922</u>	<u>\$ 1,281,686</u>	<u>\$ 3,508</u>	<u>\$ 62,863</u>

<u>Drug Forfeiture</u>	<u>Multi-Grants</u>	<u>Community Projects</u>	<u>Federal Account</u>	<u>Community Development</u>	<u>Site Reclamation</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ -	\$ 658	\$ -	\$ 1,581,237
110	-	-	-	-	-	5,027
12,961	-	-	-	-	-	17,071
13,071	-	-	-	658	-	1,603,335
574	-	-	-	-	-	514,716
-	-	-	-	-	-	141,634
-	-	-	-	-	-	306,920
-	-	-	-	-	-	23,156
-	-	-	-	-	-	57,935
-	-	-	-	-	-	24,652
-	-	-	-	-	-	22,850
-	-	-	-	658	-	658
574	-	-	-	658	-	1,092,521
12,497	-	-	-	-	-	510,814
-	-	-	-	-	-	17,579
-	-	-	-	-	-	(80,018)
-	-	-	-	-	-	(62,439)
12,497	-	-	-	-	-	448,375
-	-	34,114	69,102	-	-	2,119,317
<u>\$ 12,497</u>	<u>\$ -</u>	<u>\$ 34,114</u>	<u>\$ 69,102</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,567,692</u>

FIDUCIARY FUNDS

CITY OF HIGHLAND PARK, MICHIGAN
Combining Balance Sheet
Fiduciary Funds
June 30, 2004

	Trust Funds		
	General Employees' Retirement System	Police and Fire Retirement System	Total Trust Funds
<u>ASSETS</u>			
Assets			
Cash and cash equivalents	\$ 255,968	\$ 447,838	\$ 703,806
Investments	6,238,319	216,396	6,454,715
Due from other funds	-	-	-
Advance to other funds	-	-	-
Pension contributions receivable	377,306	3,209,589	3,586,895
	<u> </u>	<u> </u>	<u> </u>
<u>TOTAL ASSETS</u>	<u>\$ 6,871,593</u>	<u>\$ 3,873,823</u>	<u>\$ 10,745,416</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities			
Accounts payable	\$ 24,558	\$ 19,950	\$ 44,508
Accrued liabilities	125,402	125,809	251,211
Due to other governments	-	-	-
Due to other funds	-	-	-
Deposits payable	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	149,960	145,759	295,719
Fund balances			
Reserved for employees' retirement	6,721,633	3,728,064	10,449,697
	<u> </u>	<u> </u>	<u> </u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$ 6,871,593</u>	<u>\$ 3,873,823</u>	<u>\$ 10,745,416</u>

Agency Funds

<u>Current Tax</u>	<u>Fire Insurance Escrow</u>	<u>30th District Court</u>	<u>Total Agency Funds</u>	<u>Total</u>
\$ 681,421	\$ 220,363	\$ 123,981	\$ 1,025,765	\$ 1,729,571
-	-	-	-	6,454,715
-	-	167,810	167,810	167,810
-	289,377	-	289,377	289,377
-	-	-	-	3,586,895
<u>\$ 681,421</u>	<u>\$ 509,740</u>	<u>\$ 291,791</u>	<u>\$ 1,482,952</u>	<u>\$ 12,228,368</u>
\$ -	\$ -	\$ 160,727	\$ 160,727	\$ 205,235
-	-	-	-	251,211
550,299	-	36,655	586,954	586,954
131,122	-	94,409	225,531	225,531
-	509,740	-	509,740	509,740
681,421	509,740	291,791	1,482,952	1,778,671
-	-	-	-	10,449,697
<u>\$ 681,421</u>	<u>\$ 509,740</u>	<u>\$ 291,791</u>	<u>\$ 1,482,952</u>	<u>\$ 12,228,368</u>

CITY OF HIGHLAND PARK, MICHIGAN
Combining Statement of Net Assets
Available for Retirement Benefits
June 30, 2004

	General Employees' Retirement System	Police and Fire Retirement System	Total
Assets			
Investments, at fair value:			
Money market accounts	\$5,681,646	\$ 216,396	\$ 5,898,042
Cash surrender value of life insurance	556,673	-	556,673
Total investments	6,238,319	216,396	6,454,715
Cash and cash equivalents	255,968	447,838	703,806
Pension contributions receivable	377,306	3,209,589	3,586,895
Total assets	6,871,593	3,873,823	10,745,416
Liabilities			
Accounts payable	24,558	19,950	44,508
Other accrued liabilities	125,402	125,809	251,211
Total liabilities	149,960	145,759	295,719
Net assets held in trust for pension benefits	<u>\$6,721,633</u>	<u>\$3,728,064</u>	<u>\$10,449,697</u>

CITY OF HIGHLAND PARK, MICHIGAN
Combining Statement of Changes in Plan Net Assets
For the Year Ended June 30, 2004

	General Employees' Retirement System	Police and Fire Retirement System	Total
Additions			
Investment income:			
Interest and dividends	\$ 125,440	\$ 3,844	\$ 129,284
Net appreciation in fair value of investments	838,214	4,479	842,693
Less investment expenses	(60,696)	-	(60,696)
Total investment income	902,958	8,323	911,281
Contributions:			
Employer	100,000	1,915,790	2,015,790
Employees	67,231	-	67,231
Total contributions	167,231	1,915,790	2,083,021
Total additions	1,070,189	1,924,113	2,994,302
Deductions:			
Pension benefits	1,630,612	1,630,378	3,260,990
Health care benefits, net	359,103	480,849	839,952
Administrative expenses	23,064	55,241	78,305
Total deductions	2,012,779	2,166,468	4,179,247
Net increase (decrease)	(942,590)	(242,355)	(1,184,945)
Net assets held in trust for benefits			
Beginning of year	7,664,223	3,970,419	11,634,642
End of year	<u>\$ 6,721,633</u>	<u>\$ 3,728,064</u>	<u>\$ 10,449,697</u>